CHAPTER 5

REDUCING TRADE COSTS FOR LEAST DEVELOPED COUNTRIES

Contributed by the Executive Secretariat for the Enhanced Integrated Framework

restricting trade potential and increasing trade costs due to delays (Haiti DTIS, 2013). As recently as mid-March 2015, the damage caused by the tropical cyclone Pam to infrastructure in the Pacific Islands Countries, such as Vanuatu, Kiribati and Tuvalu, is likely to have debilitating effects on trade costs in these countries. For example, as documented by the Asian Development Bank, in the case of Kiribati tidal surges extensively damaged the Betio-Tarawa causeway, a key transport link in the country (ADB, 2015).

Additionally, several LDCs are vulnerable to climate changes due to: i) their location in parts of the world that are expected to be badly affected by temperature and precipitation changes; ii) a huge reliance on climate-sensitive economic sectors, such as agriculture, for generating export revenues; and iii) a limited capacity to adapt to negative external events due to a low level of economic development and stretched institutional capacity (Bruckner, 2012i

Figure 5.2 Cost of exporting and importing from LDCs in the Central Africa sub-region, 2005-2014

Cost of exporting

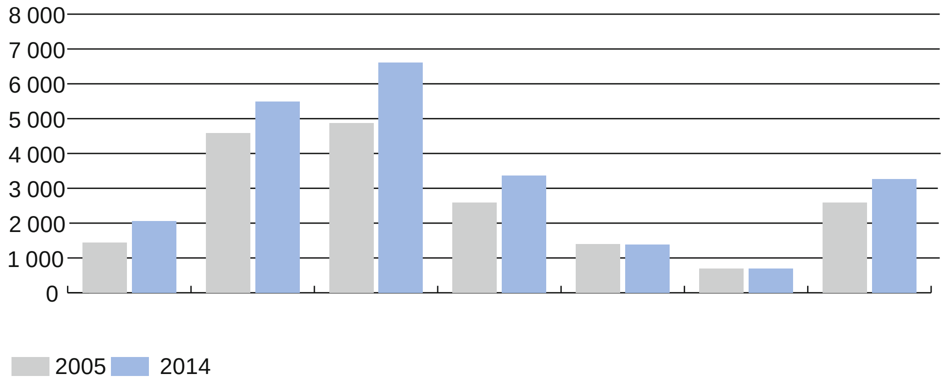
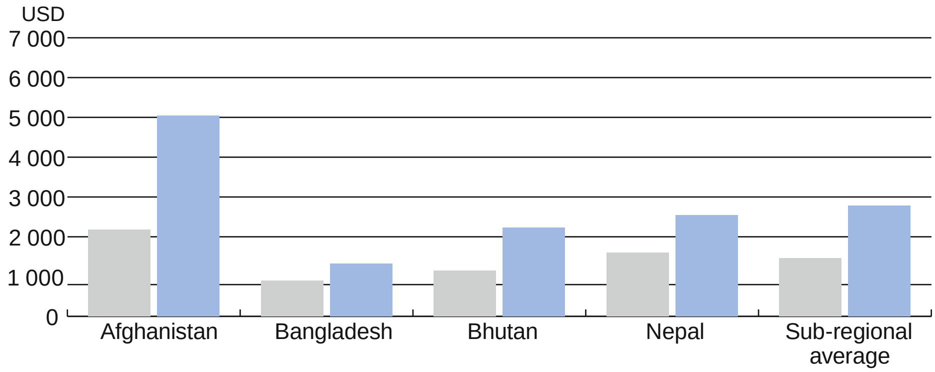


Figure 5.3 Costs of exporting and importing from LDCs in South Asia sub-region, 2005-2014

Cost of exporting



Cost of importing

Moreover, a recent report published jointly by the World Bank and UN OHRLLS (2014) shows that LLDCs generally face much higher trade costs compared to transit coastal countries. Even among LDCs, landlocked countries tend to incur higher costs for exporting as well as importing, compared to their coastal counterparts. Figure 5.4 not only shows the higher cost incurred by landlocked LDCs compared to coastal LDCs but also the evolution of costs over the past decade. The left axis represents the export costs per twenty-foot equivalent unit container for landlocked LDCs and coastal LDCs and the right axis shows higher costs incurred by the latter in relation to the former in terms of percentage. As shown in Figure 5.4, landlocked countries su ered from higher export costs in the beginning, and their costs are rising rapidly compared to their costal counterparts: there was a di erence of 96% in 2005, increasing to 168% in the matter of a decade. It is worth noting while the export costs of landlocked LDCs increased by 46% between 2005 and 2014, coastal countries• export costs increased only by 7% during the corresponding period.

Figure 5.4 Export and import costs of landlocked LDCs vis-à-vis coastal LDCs, 2005-2014

Export costs

For example, in West Africa, as documented by Ben Barka (2012:6), bribes collected by various agencies, including customs, police, gendarmerie and other uniformed services, range from USD 3 to USD 23 per 100 km.. In the case of Burkina Faso, although Snow et al. (2003) do not provide any numbers, they argue that rigorous police checkpoints in the trade routes not only cost time, but often money in the form of bribes. The frequent road-side demand for bribe payment was also highlighted in the earlier version of Burkina Faso•s DTIS completed in 2007.

Commodity dependence

According to UNCTAD•s classi cation, more than half of the LDCs (27 out of 48) are dependent on commodities (agriculture, fuels and minerals) for their exports. Since commodities are bulky products, overall trade costs for their exports tend to be higher than light manufacturing. In order to calculate the trade costs, we rely again on the export-cost data derived from the Doing Business Report for the period 2005 to 2014. Since most of the commodities exporting

Since commodities are by nature bulky products no matter what countries export, there may not be any speci c reason for mineral exports costing more than costs of exporting other commodities. One explanation, however, for the higher trade cost faced by mineral exporters compared to oil exporters is that among the exporters of oil, all but Chad happen to be coastal countries, which incur lower export costs. This seems to suggest that the higher trade costs for mineral exporting countries are due to their being landlocked rather than anything else. However, further research is required to establish that this is actually the case.

Fragile situation

LDCs are also amongst the most fragile countries, either facing ongoing political unrest, armed revolt and/or the threat of terrorism, which can impose trade costs that are not trivial. These can be due to damage caused to vital infrastructure, such as roads, bridges, telecommunications or ports, additional security checks that are required to contain potential damages, threats of strikes and shutdown of trade routes and higher insurance premiums due to the above mentioned threats. For example, the 2006 Sierra Leone DTIS takes account of the damage caused by civil con ict to much of the country•s infrastructure and trade related services.

Although the impact of con ict on trade costs is a relatively under-researched area, Blomberg and Hess (2006), who conducted an empirical investigation with the annual observation of a panel dataset of 177 countries between 1968 and 1999, found that for a given year, the presence of terrorism coupled with internal and external con ict is equivalent to a nearly 30% tari on trade. This is much larger than many other trade costs discussed so far.

No less than 23 out of 48 LDCs are on the World Bank 2014 Harmonized List of Fragile Situations. Some are still reeling under civil strife, while others are in the post-con ict stage. Three countries on the World Bank list (Somalia, South Sudan and Tuvalu) were not included in the Doing Business Re.2(.)S(s)-8.9

TABLE 5.5. Evolution of LDCs• priorities in relation to reducing trade costs, 2002-14

Country	Major priorities identi ed (2002- 08)	Major priorities identi ed (2013-14)
Senegal	Enhancing e cient management of import procedures; improving customs valuation procedures; and improving management of duty-free imports for exporter schemes	Improving and maintaining the road network and infrastructure; reducing multiplicity of customs related platforms and procedures; and addressing customs fraud
Sierra Leone	Reducing clearance costs; increasing transparency; sensitising traders about applicable customs tari rates and customs procedures; improving valuation procedures; building capacity of customs services; reducing cross border smuggling; upgrading transport infrastructure; encouraging private participation in building and operating ports and terminals and handling and storage facilities; improving coordination between various ministries and related agencies; training private sector transport actors; strengthening public-private dialogue in transport and trade facilitation, transit and border crossings; and developing cheap transport alternatives	Eliminating infrastructure bottlenecks and improving intermodal connectivity; improving the quality and operating environment of core logistics services to build e cient supply chains; building on progress made in customs and border management to boost revenue collection and e ciency in cargo clearing and transit; and introducing measures to better monitor cross-border trade and address challenges of informal traders to help bring them in to the formal sector
Sudan		

Rise of regional integration

Regional integration is burgeoning, and the pace is likely to increase regardless of the development taking place within the multilateral trading system. All LDCs are now party to regional trade agreements, and some of them have realised that regional integration can be a cushion against vulnerability associated with excessive dependence on countries outside of the region for their trade relations. At the same time, landlocked countries nd it more convenient and cost e ective to trade with their immediate neighbours where transit issues are not a problem.

Moreover, some of the reduction in trade costs can be more conveniently and economically achieved at the regional level rather than at the international level. Considerable evidence shows that trade could be expanded within existing regional integration schemes by relatively less costly and straightforward reforms, such as simplifying and reducing documentation requirements across borders, enhancing transparency, expediting the release of goods from customs, standardising trade-related regulations and improving border agency co-ordination within and among members of a common regional trading arrangement (Milner, Morrissey and Zgovu, 2008). This issue features prominently in some of the new versions of DTISs. Two noteworthy examples of regional endeavours to reduce costs are Sierra Leone and Zambia, which show that regionally-induced reform measures can have a multiplier e ect on lowering trade costs.

Analytical work

The past decade has witnessed a vast amount of analytical work that underpins the DTIS process, national trade policies and national export strategies, as well as various reports produced by multilateral institutions, regional economic commissions and not for pro t foundations. Trade facilitation, which is a major constituent part of the trade cost universe, is included as a dedicated chapter or as a cross cutting issue in the new generation of DTISUs (e.g. Burkina Faso DTISU 2014, Burundi DTISU 2012, Cambodia DTISU 2014, Haiti DTIS 2013, etc.) or national export strategies (for example the national export strategies of Gambia and of Malawi include trade facilitation as an important agenda).

These works have also contributed to the publication of the global ranking of trade costs as re ected in the World Bank•s Doing Business Report and the LPI and the World Economic Forum•s Global Competitiveness Report and Enabling Trade Report. These rankings have become powerful tools not only because of the carrot they o er to reformers but also the stick they provide to countries that maintain the status quo or regress. Despite their methodological limitations, as accepted measurements these rankings exert considerable pressures on the countries to reform, because as the organisation theorist Mason Haire once suggested, •What gets measured, gets doneŽ. Moreover, potential traders, lead rms in GVCs and foreign investors who wish to engage in business transactions with the countries included in these global rankings use this type of information to make their business decisions (see Kelley and Simmons [2015], for example), which provides a further impetus for reforms.

Changing priorities and policies of governments

Trade is being increasingly perceived as a key instrument for achieving development objectives, including inclusive economic growth and poverty reduction in the LDCs. Given relatively strong government adherence to this agenda within the LDCs, countries are keen to take the necessary measures to expand and diversify trade, which o ers a signi cant developmental spin o . It must be noted that one of the major objectives of the EIF is to ensure trade mainstreaming into the national development strategies as well as sectoral programmes and policies. For example, based on the EIF Annual Progress Report 2014, 82% of EIF countries have reached a •satisfactoryŽ level of trade mainstreaming into their national development plans compared with 32 per cent in 2010, and 93% of EIF countries implementing •productive

Various regional initiatives, such as the TMEA (a multi-donor initiative which aims for an enhanced trade environment and has speci c and measurable targets) and the Trade Hub Projects (A USAID-funded initiative that targets customs reforms and modernisation and trade facilitation, WTO compliance and trade costs reduction) have supplemented these global e orts aimed at reducing trade costs. Moreover, there are several other initiatives at the bilateral level … both traditional and with South-South donors. The existence of these initiatives has provided an incentive for the governments to undJ 23.3alS

Figure 5.9: Aid for Trade to East Africa and South Asia sub-regions (disbursements)

East Africa

USD

Source: OECD-DAC/CRS aid activity database.

As can be seen from the figures above, there are a few countries receiving a higher share than the rest of the LDCs, and a much higher share than the LDC average tends to dominate. For example, in the case of East Africa, Ethiopia, Tanzania and Uganda receive more than the rest of the countries in the region. Similarly, in the case of South Asia, Afghanistan receives a significantly higher amount than the other LDCs, although the aid-for-trade receipt of Bangladesh is also much higher than the other two countries in the region and certainly much higher than the LDC average.

Resource requirement:Since some of the measures aimed at addressing transportation and logistics problems are resource intensive and the domestic actors … i.e. the government and the private sector … alone cannot meet these costs, donors should contribute su cient resources to help countries achieve desired results. If a donor is unable to support an initiative in its entirety, it would be advisable either to support the initiative through a consortium approach, with the participation of multiple donors, or to encourage the recipient country right from the beginning to leverage resources. Another alternative approach is to include challenge funds supported by donors that encourage more private sector participation in logistics and transport, as is happening in East Africa. This is an area in which the EIF has achieved mixed results and needs to scale up its work (Capra International Inc., 2104).

Donor co-ordination: This is vital to avoid duplication of funding as well as achieve synergy between the support provided by various donors. One of the objectives of the EIF is to ensure a co-ordinated delivery of trade related technical assistance, which is achieved through three di erent channels. First, the EIF encourages aid-for-trade support to be based on country priorities identi ed by the DTIS process. The various institutional structures created under the EIF are well informed about these priorities as well as support already provided by other donors. Second, the DF conducts regular consultations with other donors on the ground to co-ordinate the delivery of aid-for-trade support. Third, the DF, who is represented in the NSC, is abreast of the status of aid for trade received by the country in any given period.

Political economy factors:In any country, vested interest groups are present, trying to thwart reforms to protect the rent they are used to receiving. Therefore, when undertaking reforms these factors need to be taken into account either by creating an incentive structure such that vested interest groups do not oppose reforms or by convincing them of the long-term bene ts of the reform, even if some problems are likely to ocprin the N711O ic6 the N711t g222c1C g222c(.6(l)7

ANNEX 5A.1 Regional sub-groupings of the LDCs

Sub-region	Country
South Asia	Afghanistan, Bangladesh, Bhutan and Nepal
South East Asia	Cambodia, Lao PDR, Myanmar and Timor-Leste
Paci c	Kiribati, Solomon Islands, Tuvalu and Vanuatu
Caribbean	Haiti
Middle East and North Africa	Mauritania and Yemen
East Africa	Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Rwanda, Somalia, Sudan, South Sudan, Tanzania and Uganda
West Africa	Benin, Burkina Faso, Cabo Verde, Gambia, Guinea, Guinea-Bissau, Liberia and Mali
Central Africa	Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea and Madagascar
Southern Africa	Angola, Lesotho, Malawi, Mozambique, Sao Tome and Principe and Zambia

Source: African Development Bank <http://www.afdb.org/en/>; Asian Development Bank <http://www.adb.org/>; and Inter-American Development Bank <http://www.iadb.org/en>.

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